THE STATE OF WORKING CONNECTICUT

CONNECTICUT VOICES FOR CHILDREN

Patrick R. O'Brien, Ph.D., Research and Policy Director

SEPTEMBER 2024

Table of Contents

Introduction **3**

Overview of Connecticut's Economy **7**

Job Growth 7

Personal Income Growth 10

Gross Domestic Product Growth 12

Overview of Connecticut's Wages **14**

Wage Growth 14

Wage Inequality 16

Wage Gaps 19

Policy Options **23**

Labor Market Policy Options 23

Tax Policy Options 25

Conclusion **26**

Acknowledgments **26**

References and Notes **27**

Introduction

The annual *State of Working Connecticut* report has three primary objectives: to provide an overview of Connecticut's economy, with a particular focus on its labor market; to analyze major wage dynamics, especially for low- and middle-wage workers; and to present policy options designed to support the state's economy and workers. As detailed below, the 2024 edition of the report is structured into three sections to achieve these objectives.

Overview of Connecticut's Economy

The first section provides an overview of Connecticut's economy, and it proceeds in three parts: job growth, personal income growth, and gross domestic product growth.

Job Growth

Jobs are important for Connecticut because wages and salaries are the primary income source for most families, especially for low- and middle-income families. Jobs are also important because—as addressed more in the next two parts—job growth significantly impacts personal income growth and gross domestic product growth, which are essential for increasing the state's ability both to make critical public investments and to make the tax system that funds those public investments less regressive. Two key findings regarding job growth include:

- From the pandemic-induced recession through January 2024, Connecticut's job growth is nearly 3.3 percentage points lower than the growth rate for the U.S., translating to 55,560 fewer jobs compared to if the state's job growth had kept pace with the U.S. since February 2020.

- From the Great Recession through January 2024—a longer-term comparison—Connecticut's job growth is 14.5 percentage points lower than the growth rate for the U.S., translating to 248,000 fewer jobs compared to if the state's job growth had kept pace with the U.S. since December 2007.

Personal Income Growth

Personal income includes wages and salaries, government benefits, business income, and more. Wages and salaries are the largest component of personal income, highlighting the close relationship between job growth and personal income growth. Moreover, personal income growth is especially important for Connecticut because it is the primary restriction on the growth in annual budget appropriations under the state's spending cap. Two key findings regarding personal income growth include:

- From the pandemic-induced recession through 2023, Connecticut's personal income growth is 6.8 percentage points lower than the growth rate for the U.S., translating to potentially hundreds of millions of dollars in reduced allowable spending on critical public investments under the spending cap compared to if the state's personal income growth had kept pace with the U.S. since 2019.

- From the Great Recession through 2023—a longer-term comparison—Connecticut's personal income growth is 35.3 percentage points lower than the growth rate for the U.S., translating to possibly billions of dollars in reduced allowable spending on critical public investments under the spending cap compared to if the state's personal income growth had kept pace with the U.S. since 2007.

Gross Domestic Product Growth

Gross domestic product (GDP) growth is a measure of the increase in the final value of goods and services produced, and it is connected to job growth and personal income growth because consumer spending, driven by wages and salaries, is the largest component of GDP. Moreover, GDP growth is especially important for Connecticut because it is essential for increasing tax revenue to fund critical public investments and tax reforms. Two key findings regarding Connecticut's GDP growth include:

- From the pandemic-induced recession through 2023, Connecticut's nominal GDP growth is 7.6 percentage points lower than the growth rate for the U.S., translating to an estimated $22 billion in total missed economic growth since 2019 and nearly $1.3 billion in missed tax revenue in 2023 compared to if the state's economic growth had kept pace with the U.S.

- From the Great Recession through 2023—a longer-term comparison—Connecticut's nominal GDP growth is 38.5 percentage points lower than the growth rate for the U.S., translating to an estimated $90.5 billion in total missed economic growth since 2007 and nearly $5.5 billion in missed tax revenue in 2023 compared to if the state's economic growth had kept pace with the U.S.

Overview of Connecticut's Wages

The second section of the report provides an overview of Connecticut's wages, and it proceeds in three parts: wage growth, wage inequality, and wage gaps.

Wage Growth

The standard approach to analyzing variation in wage growth is to compare growth rates at different percentiles of the wage distribution, generally ranging from the 10th percentile to the 90th percentile. In this report, low-wage workers are defined as those in the bottom 50 percent of the wage

distribution, and middle-wage workers are defined as those in the next 40 percent of the wage distribution. Two key findings concerning wage growth in Connecticut include:

- From 2019 to 2023, real wage growth in Connecticut was the highest for low-wage workers, averaging 11.4 percent and helping improve their standard of living. In contrast, real wage growth averaged -0.5 percent for middle-wage workers, making it more difficult for these workers to maintain their standard of living.
- The historic surge in inflation starting in 2021 eroded much of the gains for low-wage workers and made it even more difficult for middle-wage workers to maintain their standard of living.

Wage Inequality

Wage inequality is the disparity in wages for workers at different percentiles of the wage distribution. A standard approach is to examine wage ratios between workers at the 90th and 10th percentiles, the 90th and 50th percentiles, and the 50th and 10th percentiles. Two key findings concerning wage inequality in Connecticut include:

- Higher real wage growth for low-wage workers from 2019 to 2023 reduced Connecticut's wage inequality within the bottom 90 percent of the wage distribution by an average of 13.4 percent.
- Filling public sector jobs would further reduce Connecticut's high level of wage inequality.

Wage Gaps

Wage gaps here refer to the disparity in wages for workers based on gender, race, and ethnicity, and the analysis includes two approaches. The first approach is to measure average unadjusted and adjusted wage gaps over time. For reference, an "unadjusted" wage gap does not control for differences in key wage factors, such as age, education, industry, and occupation, whereas an "adjusted" wage gap uses statistical methods to control for those factors. The second approach is to measure unadjusted wage gaps by percentile in 2023. The key finding concerning Connecticut's wage gaps includes:

- Connecticut continues to have substantial gender, racial, and ethnic wage gaps—even generally when controlling for many key factors—and the wage gaps apply to both low- and middle-wage workers.

Policy Options

The third section of the report provides policy options to support Connecticut's economy and workers, and the policy options are grouped into two broad categories: labor market policy options and tax policy options.

Labor Market Policy Options

Addressing major problems in the labor market will increase the state's labor force and job growth, leading to increased personal income growth and gross domestic product (GDP) growth, which in turn will increase the state's spending cap capacity and tax revenue. It will also help to increase wage growth, reduce wage inequality, and reduce wage gaps. The labor market policy options highlighted in this report include:

- Eliminate the subminimum wage
- Establish predictable scheduling
- Limit the use of noncompete agreements
- Fill public sector jobs
- Improve the early care and education (ECE) system by increasing the pay for ECE workers and making child care more affordable for families

Tax Policy Options

Making the tax system less regressive will increase the post-tax income of low- and middle-wage workers and their families. The resulting increase in consumer spending will boost job growth, personal income growth, and GDP growth, which in turn will help to increase the state's spending cap capacity and tax revenue. Making the tax system less regressive will also reduce post-tax income inequality and income gaps, offsetting in part the negative impact of wage inequality and wage gaps. The tax policy options highlighted in this report include:

- Reduce Connecticut's tax gap to generate additional revenue
- Eliminate and/or reduce high cost, high growth tax expenditures to generate additional revenue
- Reform Connecticut's fiscal controls to generate additional revenue
- Provide support to low- and middle-wage workers and their families by using the additional revenue to establish a fully refundable Connecticut Child Tax Credit
- Provide support to low- and middle-wage workers and their families by using the additional revenue to make the Connecticut Property Tax Credit fully refundable and available to renters
- Provide support to low- and middle-wage workers by using the additional revenue to increase the Connecticut Earned Income Tax Credit for childless workers

Overview of Connecticut's Economy

This section provides an overview of Connecticut's economy, and it proceeds in three parts: job growth, personal income growth, and gross domestic product growth.

Job Growth

The U.S. Bureau of Labor Statistics measures nonfarm employment, or jobs, each month. Jobs are important for Connecticut because wages and salaries are the primary income source for most families, especially for low- and middle-income families. Jobs are also important because—as addressed more in the next two parts—job growth significantly impacts personal income growth and gross domestic product (GDP) growth, which are essential for increasing the state's ability both to make critical public investments and to make the tax system that funds those public investments less regressive. Two key findings regarding job growth are highlighted below.

From the pandemic-induced recession through January 2024, Connecticut's job growth is nearly 3.3 percentage points lower than the growth rate for the U.S., translating to 55,560 fewer jobs compared to if the state's job growth had kept pace with the U.S. since February 2020.

Figure 1 shows the change in nonfarm employment in the U.S. and Connecticut since the pandemic-induced recession.[1] In the U.S., employment decreased by 14.4 percent from February 2020 to April 2020, a loss of 21.9 million jobs. The U.S. then fully recovered its lost jobs by June 2022, and it has generated total job growth of 3.4 percent through January 2024.

In contrast, Connecticut initially experienced a steeper decline in employment of 17.1 percent from February 2020 to April 2020, equal to a loss of 291,100 jobs. It then took the state until October 2023 to fully and sustainably recover its lost jobs—more than a year after the U.S.—and Connecticut has generated total job growth of only 0.2 percent through January 2024. If Connecticut's job growth had kept pace with the U.S. from February 2020 through January 2024, the state would have an estimated 55,560 additional jobs.

Connecticut's slower job recovery is partly due to a slower recovery in public sector jobs, the sector over which state policymakers have the most direct control. In the U.S., public sector employment (federal, state, and local) is up 1.2 percent from February 2020 through January 2024, whereas in Connecticut public sector employment is down 1.6 percent during the same period. If public sector job growth in Connecticut had kept pace with the U.S., the state would have an estimated 6,690 additional public sector jobs.

From the Great Recession through January 2024—a longer-term comparison—Connecticut's job growth is 14.5 percentage points lower than the growth rate for the U.S., translating to 248,000 fewer jobs compared to if the state's job growth had kept pace with the U.S. since December 2007.

Figure 2 shows the change in nonfarm employment in the U.S. and Connecticut since the Great Recession.[2] This important historical shows that Connecticut's slower job recovery from the pandemic-induced recession builds on a slower job recovery from the Great Recession.

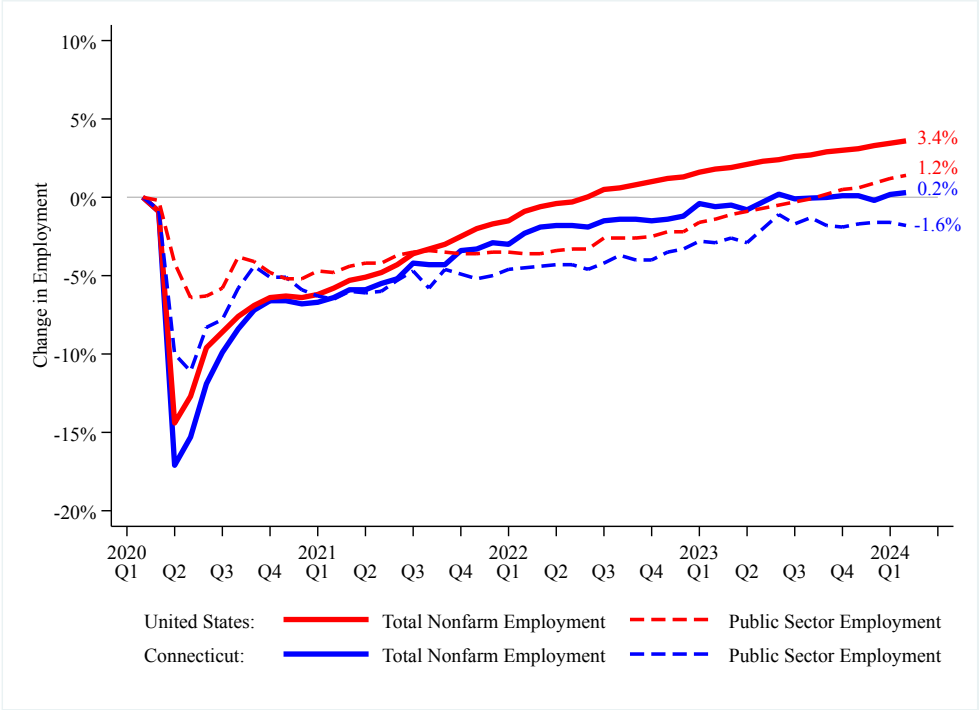
In the U.S., employment decreased by 6.3 percent from December 2007 to February 2010, a loss of 8.7 million jobs. The U.S. then fully recovered its job shortfall in May 2014, and it has generated total job growth of 13.8 percent through January 2024.

In contrast, Connecticut initially experienced a steeper decline in employment of 6.5 percent from December 2007 to February 2010, equal to a loss 110,700 jobs. The state also then never fully recovered its lost jobs before the start of the pandemic-induced recession, and its job growth is down 0.6 percent, or 10,900 jobs, through January 2024. If Connecticut's job growth had kept pace with the U.S. from December 2007 through January 2024, the state would have an estimated 248,000 additional jobs.

Like the recovery from the pandemic-induced recession, Connecticut's slower job recovery from the combination of the Great Recession and the pandemic-induced recession is partly due to a slower recovery in public sector jobs. In the U.S., public sector employment (federal, state, and local) is up 3.4 percent from December 2007 through January 2024, whereas in Connecticut public sector employment is down 9.3 percent during the same period. If public sector job growth in Connecticut had kept pace with the U.S., the state would have an estimated 32,600 additional public sector jobs.

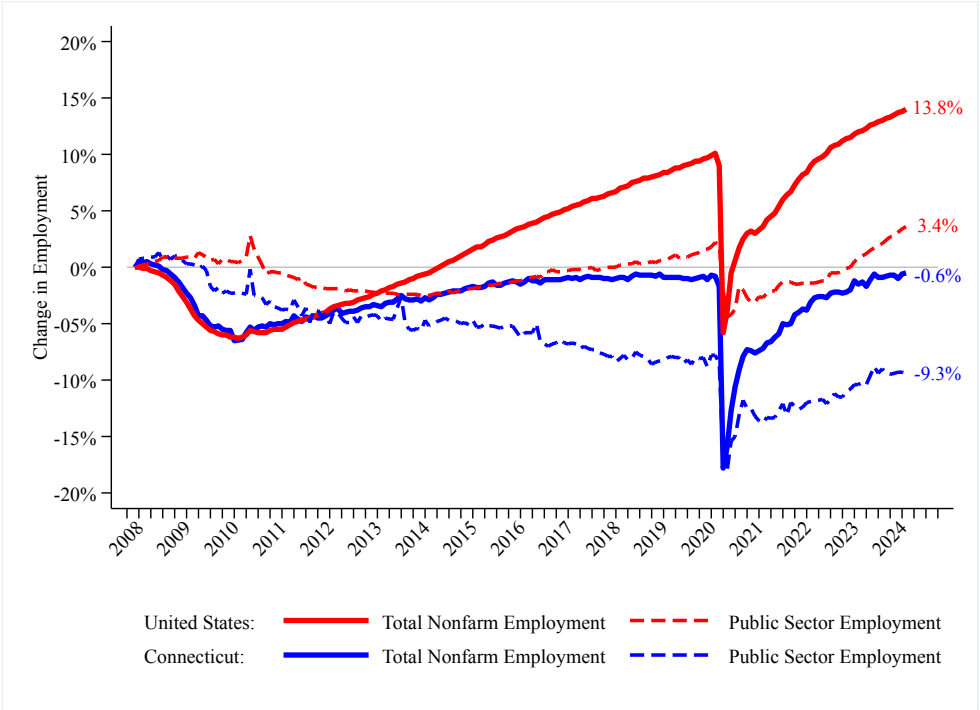
In addition to slowing Connecticut's job recovery, the decline in public sector jobs can have significant policy consequences. Consider the example of the decrease in auditors at the Connecticut Department of Revenue Services (DRS). The objective of the DRS' Audit Division is "to determine the accuracy of tax reporting through comprehensive field and office audits of targeted accounts in order to collect tax revenue due, and to induce compliance among all taxpayers."[3] In conducting that work, the DRS estimates that each auditor generates $2 million a year in revenue.[4] However, from fiscal year 2008 (the last fiscal year partially predating the Great Recession) to fiscal year 2022 (the latest year with an itemization of filled and vacant positions), the Audit Division lost 100 full-time filled positions (the full-time filled positions totaled 297 in FY 2008 compared to 197 in FY 2022).[5] This contributes to the state's slower job recovery and potentially costs up to $200 million a year in lost tax revenue that could be used to fund critical public investments and tax reforms needed to make the tax system less regressive.

Figure 1. Job Growth in Recovering from the Pandemic-Induced Recession



Source: U.S. Bureau of Labor Statistics and author's calculations.

Figure 2. Job Growth in Recovering from the Great Recession and the Pandemic-Induced Recession



Source: U.S. Bureau of Labor Statistics and author's calculations.

Personal Income Growth

The U.S. Bureau of Economic Analysis provides quarterly measures of personal income, which includes wages and salaries, government benefits, business income, and more. Wages and salaries are the largest component of personal income, highlighting the close relationship between job growth and personal income growth. Moreover, personal income growth is especially important for Connecticut because it is the primary restriction on the growth in annual budget appropriations under the state's spending cap. Two key findings regarding personal income growth are highlighted below.

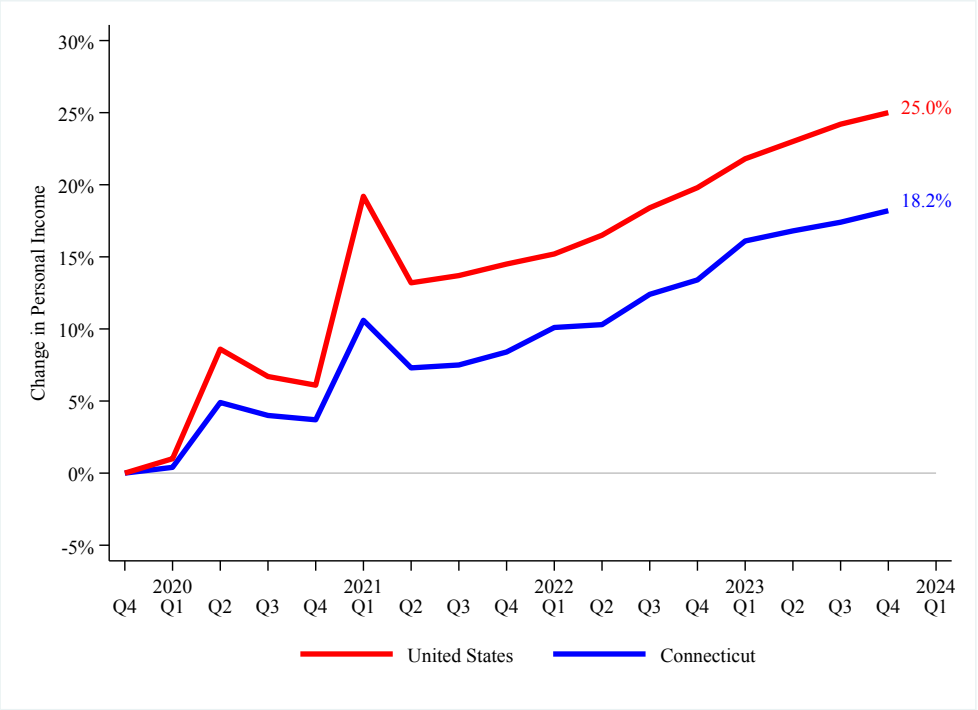
From the pandemic-induced recession through 2023, Connecticut's personal income growth is 6.8 percentage points lower than the growth rate for the U.S., translating to potentially hundreds of millions of dollars in reduced allowable spending on critical public investments under the spending cap compared to if the state's personal income growth had kept pace with the U.S. since 2019.

Figure 3 shows personal income growth in the U.S. and Connecticut from the fourth quarter of 2019, predating the pandemic-induced recession, through the fourth quarter of 2023.[6] Over this period, personal income growth totaled 25 percent in the U.S. compared to 18.2 percent in Connecticut, resulting in a total growth gap of 6.8 percentage points and a compound annual growth rate gap of 1.4 percentage points. Moreover, because the state's spending cap limits budget appropriations to a percentage increase based on either inflation or the compound annual growth rate in personal income over the preceding five years, Connecticut's slower personal income growth directly and significantly impacts its ability to fund public investments. For example, applying Connecticut's 1.4 percentage point gap in the compound annual growth rate in personal income to its annual capped expenditures for fiscal years 2020 through 2022 (all of which were limited by growth in personal growth), the state could have spent on average an additional $205 million per year on public investments.[7]

From the Great Recession through 2023—a longer-term comparison—Connecticut's personal income growth is 35.3 percentage points lower than the growth rate for the U.S., translating to possibly billions of dollars in reduced allowable spending on critical public investments under the spending cap compared to if the state's personal income growth had kept pace with the U.S. since 2007.

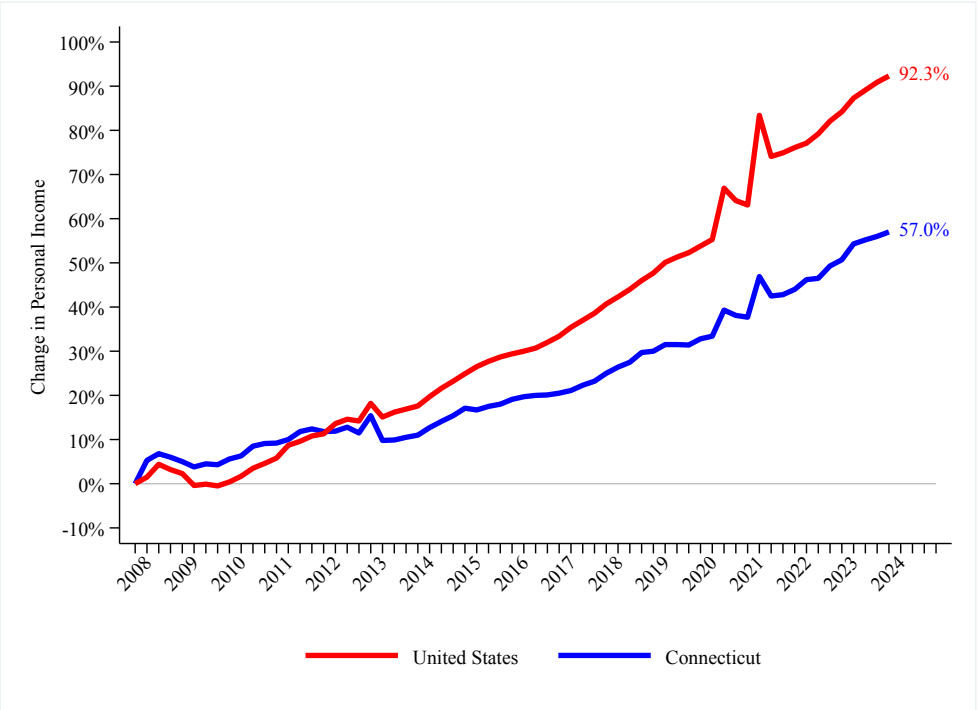
Figure 4 shows the growth in personal income in the U.S. and Connecticut from the fourth quarter of 2007, the start of the Great Recession, through the fourth quarter of 2023.[8] This important historical context shows that Connecticut's slower personal income growth since the pandemic-induced recession builds on slower personal income growth since the Great Recession. Specifically, personal income growth over this period totaled 92.3 percent in the U.S. compared to 57 percent in Connecticut, resulting in a total growth gap of 35.3 percentage points and a compound annual growth rate gap of 1.3 percentage points, which directly and significantly impacts the state's ability to fund public investments. For a simplified example, applying the compound annual growth rate for the U.S. (4.2 percent) and Connecticut (2.9 percent) to a $15 billion budget over 16 years creates an annual budget gap of $5.3 billion by 2023, demonstrating that the state's slower personal income growth translates to possibly billions of dollars in reduced allowable spending on critical public investments.[9]

Figure 3. Personal Income Growth
in Recovering from the Pandemic-Induced Recession



Source: U.S. Bureau of Economic Analysis and author's calculations.

Figure 4. Personal Income Growth in Recovering
from the Great Recession and Pandemic-Induced Recession



Source: U.S. Bureau of Economic Analysis and author's calculations.

Gross Domestic Product Growth

The U.S. Bureau of Economic Analysis provides quarterly estimates of gross domestic product (GDP) growth. GDP growth is a measure of the increase in the final value of goods and services produced, and it is connected to job growth and personal income growth because consumer spending, driven by wages and salaries, is the largest component of GDP. Moreover, GDP growth is especially important for Connecticut because it is essential for increasing tax revenue to fund critical public investments and tax reforms. Two key findings regarding Connecticut's GDP growth are highlighted below.

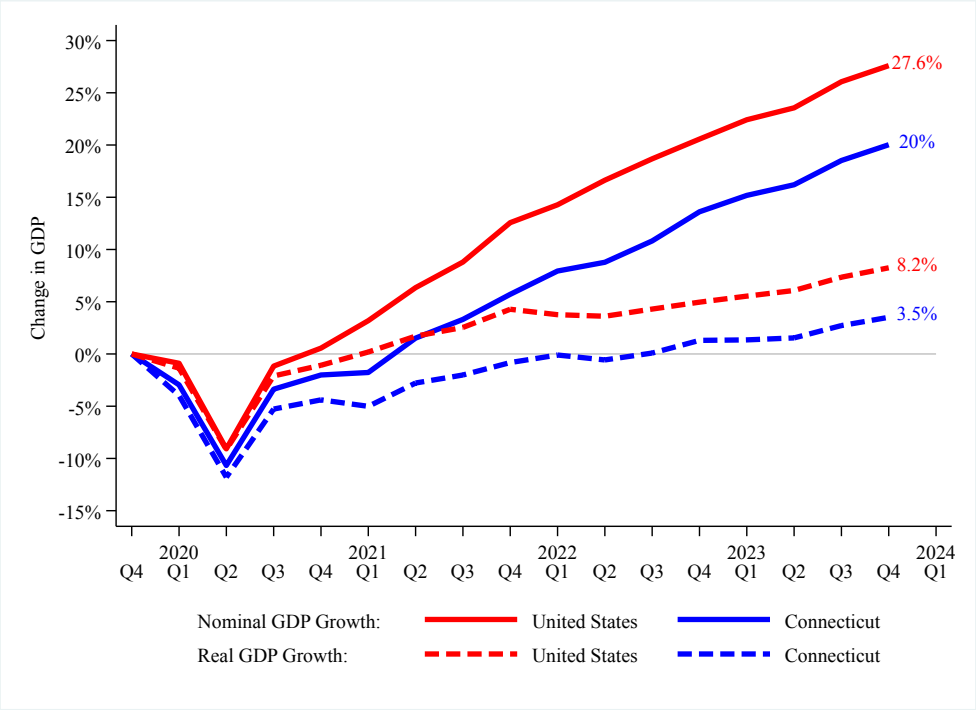
From the pandemic-induced recession through 2023, Connecticut's nominal GDP growth is 7.6 percentage points lower than the growth rate for the U.S., translating to an estimated $22 billion in total missed economic growth since 2019 and nearly $1.3 billion in missed tax revenue in 2023 compared to if the state's economic growth had kept pace with the U.S.

Figure 5 shows the nominal and real (inflation-adjusted) GDP growth in the U.S. and Connecticut from the fourth quarter of 2019, predating the pandemic-induced recession, through the fourth quarter of 2023.[10] Nominal GDP growth over this period totaled 27.6 percent in the U.S. compared to 20 percent in Connecticut, resulting in a growth gap of 7.6 percentage points; and real GDP growth totaled 8.2 percent in the U.S. compared to 3.5 percent in Connecticut, resulting in a growth gap of 4.7 percentage points. Focusing on nominal GDP—the more relevant measure for taxes—if Connecticut's GDP growth rate had kept pace with the U.S. since late 2019, the state's economy would have been $22 billion larger in the fourth quarter of 2023. This in turn has significant consequences for Connecticut's tax revenue. For example, holding Connecticut's General Fund net tax revenue fixed as a percentage of GDP, that source of tax revenue would have been $1.27 billion higher in fiscal year 2023 if the state's GDP growth had kept pace with the U.S. since 2019.[11]

From the Great Recession through 2023—a longer-term comparison—Connecticut's nominal GDP growth is 38.5 percentage points lower than the growth rate for the U.S., translating to an estimated $90.5 billion in total missed economic growth since 2007 and nearly $5.5 billion in missed tax revenue in 2023 compared to if the state's economic growth had kept pace with the U.S.

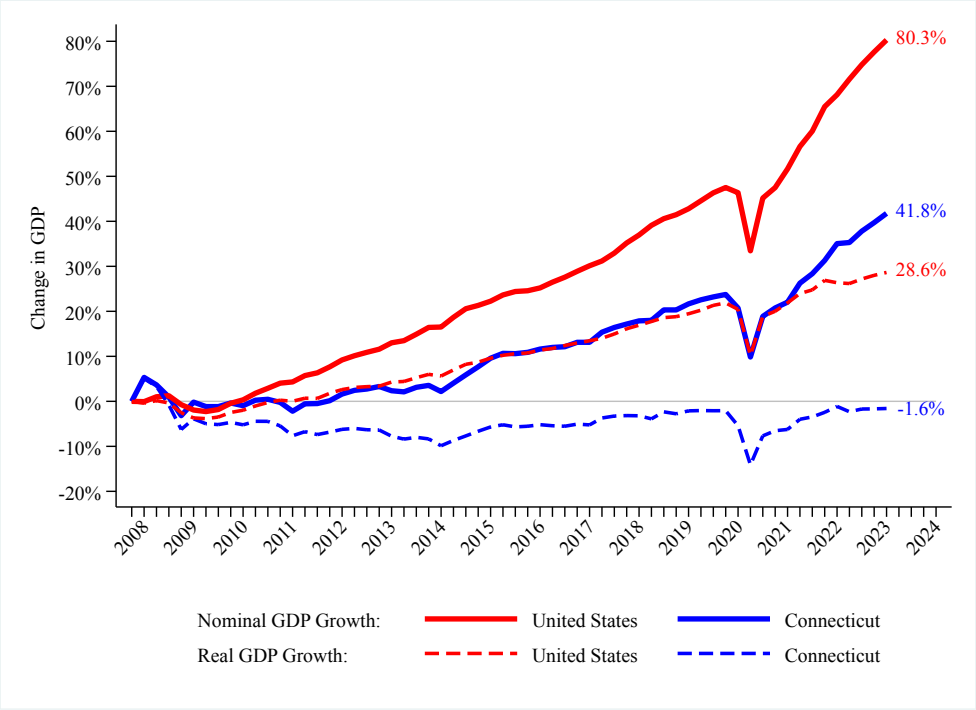
Figure 6 shows the nominal and real GDP growth in the U.S. and Connecticut from the fourth quarter of 2007, the start of the Great Recession, through the first quarter of 2023, the most recent period available for this different historical dataset.[12] This important historical context shows that Connecticut's slower GDP growth since the pandemic-induced recession builds on slower GDP growth since the Great Recession. Specifically, nominal GDP growth over this period totaled 80.3 percent in the U.S. compared to 41.8 percent in Connecticut, resulting in a growth gap of 38.5 percentage points. If Connecticut's nominal GDP growth rate had kept pace with the U.S. since late 2007, the state's economy would have been $90.5 billion larger in the first quarter of 2023. Additionally, holding Connecticut's General Fund net tax revenue fixed as a percentage of GDP, that source of tax revenue would have been $5.46 billion higher in fiscal year 2023 if the state's GDP growth had kept pace with the U.S. since 2007.[13]

Figure 5. Gross Domestic Product Growth in Recovering from the Pandemic-Induced Recession



Source: U.S. Bureau of Economic Analysis and author's calculations.

Figure 6. Gross Domestic Product Growth in Recovering from the Great Recession and Pandemic-Induced Recession



Source: U.S. Bureau of Economic Analysis and author's calculations.

Overview of Connecticut's Wages

This section provides an overview of Connecticut's wages, and it proceeds in three parts: wage growth, wage inequality, and wage gaps.

Wage Growth

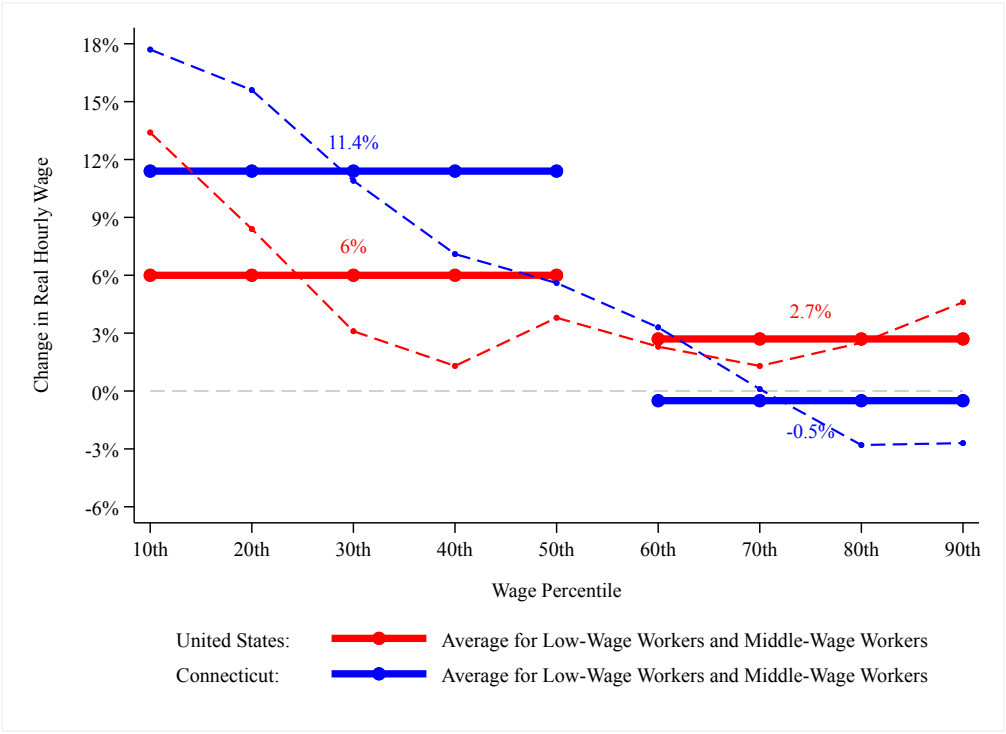
The Current Population Survey (CPS), conducted by the U.S. Census Bureau for the U.S. Bureau of Labor Statistics, provides important data for analyzing wage growth across different segments of the wage distribution. This data includes both hourly wage earners and salaried workers, whose earnings can be converted to an hourly wage based on hours worked. The standard approach to analyzing variation in wage growth using CPS data is to compare growth rates at different percentiles of the wage distribution, generally ranging from the 10th percentile to the 90th percentile. In this report, low-wage workers are defined as those in the bottom 50 percent of the wage distribution, and middle-wage workers are defined as those in the next 40 percent of the wage distribution. For reference, the 10th percentile of the wage distribution represents workers who earn as much or more than the bottom 10 percent of workers, while the 90th percentile represents workers who earn as much or more than the bottom 90 percent of workers. Two key findings concerning wage growth in Connecticut are reviewed below.

From 2019 to 2023, real wage growth in Connecticut was the highest for low-wage workers, averaging 11.4 percent and helping improve their standard of living. In contrast, real wage growth averaged -0.5 percent for middle-wage workers, making it more difficult for these workers to maintain their standard of living.

Figure 7 shows the real (inflation-adjusted) growth in hourly wages by percentile in the U.S. and Connecticut from 2019 through 2023.[14] Low-wage workers had an average real wage growth of 11.4 percent in Connecticut, compared to 6 percent in the U.S. This helped to improve the standard of living for Connecticut's low-wage workers and was due in large part to the increase in the state's minimum wage. In 2019, Connecticut passed a law raising the minimum wage in steps: to $11 in October 2019, $12 in September 2020, $13 in August 2021, $14 in July 2022, and $15 in June 2023. Then, in 2024 and each year thereafter, the minimum wage increases based on the annual percentage change in the Employment Cost Index (ECI) for wages and salaries for all civilian workers.[15]

In contrast to low-wage workers, middle-wage workers had an average real wage growth of -0.5 percent in Connecticut. This negative average real wage growth means that inflation outpaced nominal wage gains, making it difficult for middle-wage workers in the state to maintain, let alone improve, their standard of living.

Figure 7. Growth in Real Hourly Wage by Percentile, 2019–2023



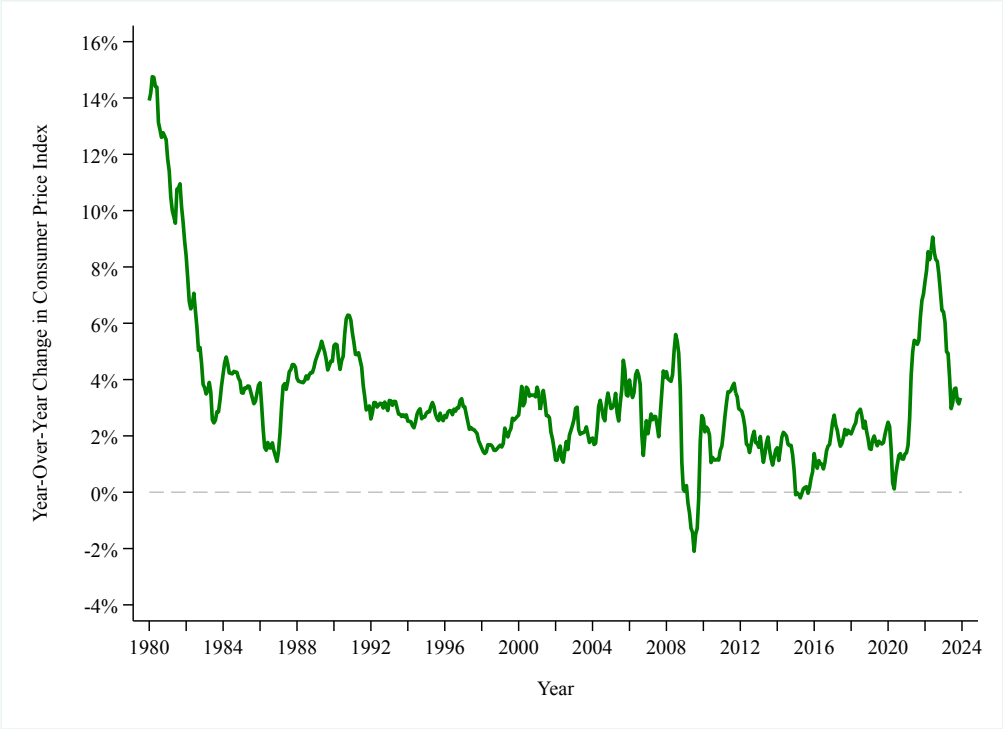
Sources: EPI's extracts of the CPS, U.S. BLS, and author's calculations.

The historic surge in inflation starting in 2021 eroded much of the gains for low-wage workers and made it even more difficult for middle-wage workers to maintain their standard of living.

Figure 8 shows the year-over-year change in the Consumer Price Index for All Urban Consumers (CPI-U)—the most prominent measure of inflation—for each month from January 1980 through December 2023.[16] Following the pandemic-induced recession in early 2020, year-over-year inflation began to rise significantly in the second half of 2021, peaking at 9.1 percent in June 2022. This was the highest inflation since the early 1980s and, relatedly, the highest inflation many current workers had experienced in their lifetime. The high inflation then continued through much of 2023, hindering the ability of low-wage workers to improve their standard of living and making it more difficult for middle-wage workers to maintain their standard of living.

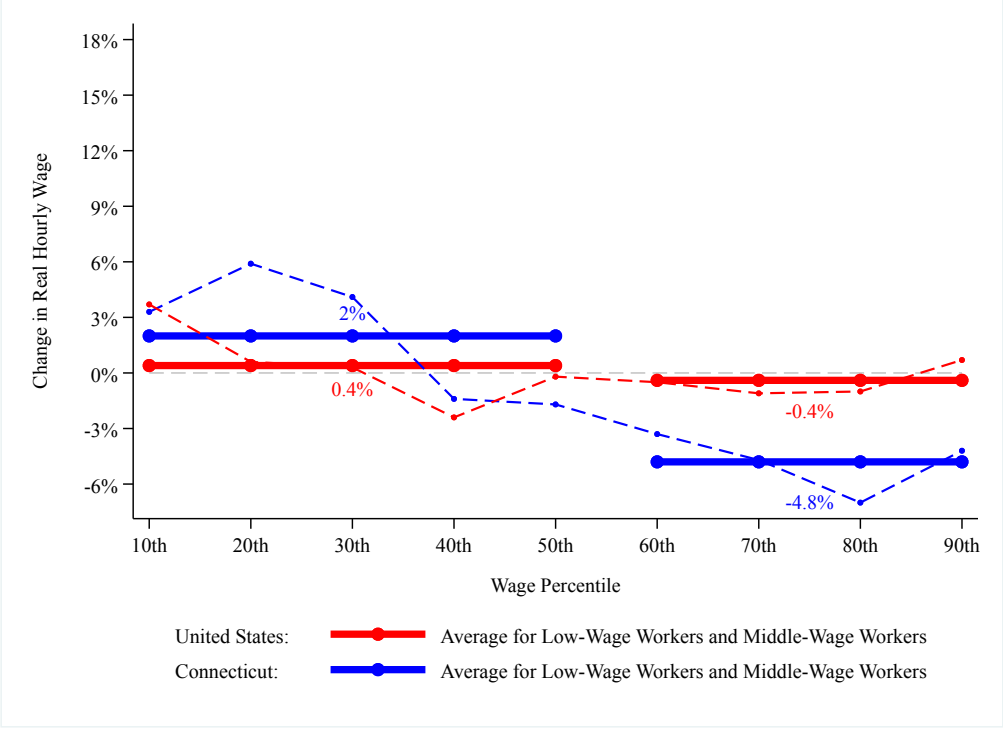
To further demonstrate the impact of inflation, **Figure 9** shows the growth in the real hourly wages by percentile from 2021 to 2023.[17] For low-wage workers in Connecticut, average real wage growth was just 2 percent from 2021 to 2023, compared to 11.4 percent from 2019 to 2023. This shows that most of the real wage growth occurred before the historic rise in inflation, which has since eroded much of the earlier gains and made it harder for low-wage workers to improve their standard of living. For middle-wage workers in Connecticut, average real wage growth was -4.8 percent from 2021 to 2023, compared to -0.5 percent from 2019 to 2023. This shows that the historic rise in inflation has made it even more difficult for middle-wage workers to maintain their standard of living.

Figure 8. Year-Over-Year Change in the Consumer Price Index for All Urban Consumers, 1980–2023



Source: U.S. Bureau of Labor Statistics and author's calculations.

Figure 9. Growth in Real Hourly Wage by Percentile, 2021–2023



Sources: EPI's extracts of the CPS, U.S. BLS, and author's calculations.

Wage Inequality

In addition to wage growth, the CPS data can be used to analyze wage inequality, which is the disparity in wages for workers at different percentiles of the wage distribution. A standard approach is to examine wage ratios between workers at the 90th and 10th percentiles, the 90th and 50th percentiles, and the 50th and 10th percentiles. Two key findings concerning wage inequality in Connecticut are discussed below.

Higher real wage growth for low-wage workers from 2019 to 2023 reduced Connecticut's wage inequality within the bottom 90 percent of the wage distribution by an average of 13.4 percent.

Figure 10 shows hourly wages by percentile in the U.S. and Connecticut in 2019 and 2023.[18] Focusing on Connecticut, in 2023 workers made $15.06 per hour at the 10th percentile, $27.39 at the 50th percentile, and $67.06 at the 90th percentile. When examining the major wage inequality ratios:

- Workers at the 90th percentile earned 4.5 times more per hour than workers at the 10th percentile in 2023, down from 5.4 times in 2019, a decrease of 17.4 percent.
- Workers at the 90th percentile earned 2.4 times more per hour than workers at the 50th percentile in 2023, down from 2.7 times in 2019, a decrease of 7.9 percent.
- Workers at the 50th percentile earned 1.8 times more per hour than workers at the 10th percentile in 2023, down from 2 times in 2019, a decrease of 10.3 percent.

Using the average of the three ratios, wage inequality within the bottom 90 percent of the distribution decreased by 13.4 percent in Connecticut since 2019, driven by higher growth for low-wage workers.

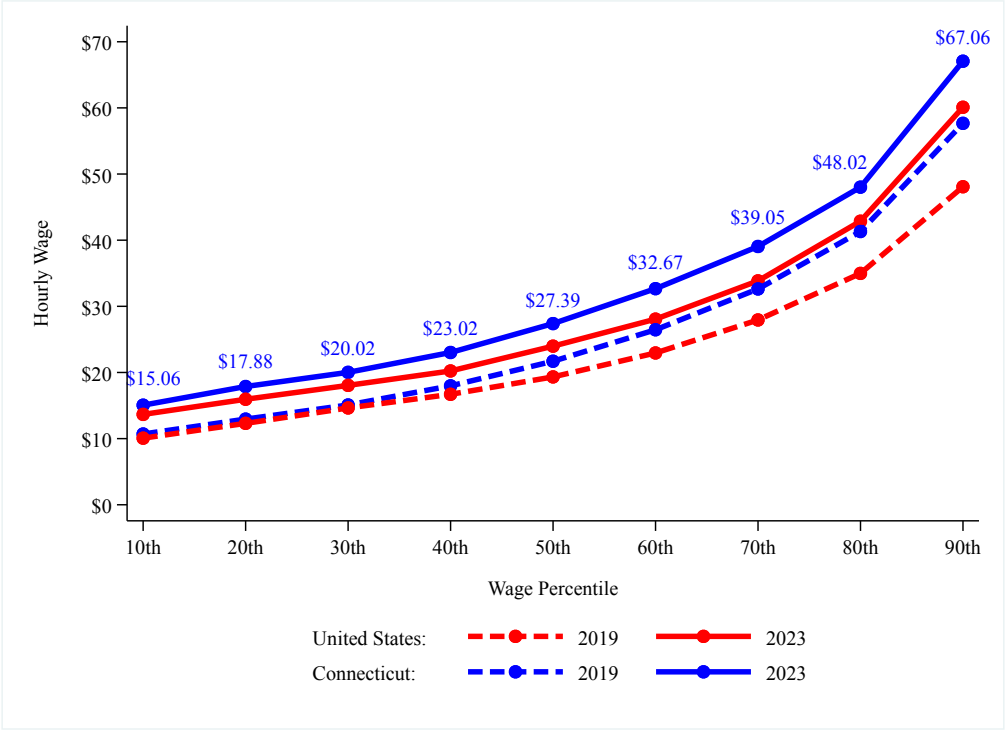
Filling public sector jobs would further reduce Connecticut's high level of wage inequality.

Figure 11 shows hourly wages by percentile in Connecticut in 2023 for public sector and private sector workers.[19] Comparing wage inequality between the two sectors:

- The 90-10 ratio is 3.3 in the public sector and 4.5, or 34.4 percent higher, in the private sector
- The 90-50 ratio is 1.7 in the public sector and 2.6, or 51.1 percent higher, in the private sector.
- The 50-10 ratio is 1.9 in the public sector and 1.7, or 11 percent lower, in the private sector.

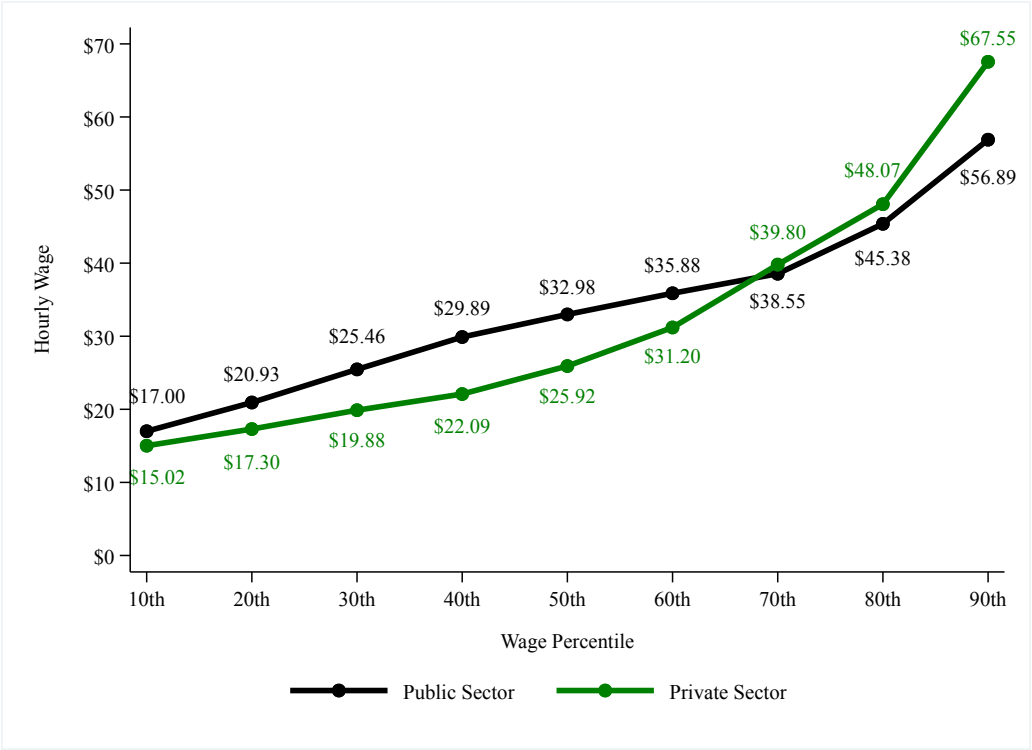
Using the average of the three ratios, wage inequality is 25.9 percent higher in the private sector compared to the public sector. The difference in wage inequality is due in part to the difference in union coverage—68.7 percent in the public sector compared to 7.6 percent in the private sector—and it demonstrates that filling the shortfall in public sector jobs is essential not only for boosting Connecticut's slower job recovery but also for further reducing the state's high level of wage inequality.

Figure 10. Hourly Wage by Percentile, 2019 and 2023



Source: EPI's extracts of the Current Population Survey and author's calculations.

Figure 11. CT Hourly Wage by Percentile in Public and Private Sectors, 2023



Source: EPI's extracts of the Current Population Survey and author's calculations.

Wage Gaps

Further expanding the analysis, the CPS data can be used to measure wage gaps, which here refers to the disparity in wages for workers based on gender, race, and ethnicity. The wage gap analysis includes two approaches. The first approach is to measure average unadjusted and adjusted wage gaps over time. For reference, an "unadjusted" wage gap does not control for differences in key wage factors, such as age, education, industry, and occupation, whereas an "adjusted" wage gap uses statistical methods to control for those factors. The second approach is to measure unadjusted wage gaps by percentile in 2023. The key finding concerning Connecticut's wage gaps is reviewed below.

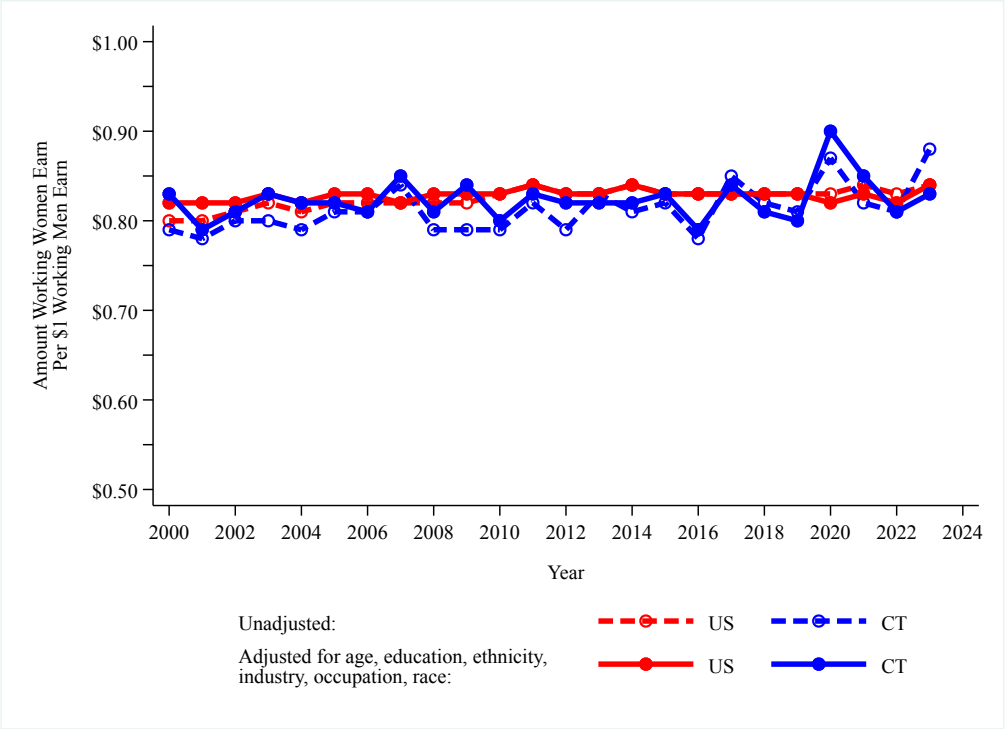
Connecticut continues to have substantial gender, racial, and ethnic wage gaps—even generally when controlling for many key factors—and the wage gaps apply to both low- and middle-wage workers.

The *gender wage gap* is measured here as the amount that women earn for each dollar that men earn. **Figure 12** shows that the unadjusted gender wage gap remains substantial, with women in Connecticut earning on average between $0.78 and $0.88 per dollar from 2000 to 2023.[20] The gender wage gap also remains substantial even when controlling for many key wage factors (age, education, ethnicity, industry, occupation, race), with women in Connecticut earning on average between $0.79 and $0.90 per dollar since 2000. For a more detailed overview of 2023, **Figure 13** shows that the unadjusted gender wage gap is substantial across the bottom 90 percent of the wage distribution, with low-wage working women earning an average of $0.90 per dollar and middle-wage working women earning an average of $0.89 per dollar.[21]

The *racial wage gap* is measured here as the amount that Black alone, non-Hispanic workers earn for each dollar that white alone, non-Hispanic workers earn. **Figure 14** shows that the unadjusted racial wage gap remains substantial, with Black workers in Connecticut earning on average between $0.62 and $0.76 per dollar from 2000 to 2023.[22] The racial wage gap also remains substantial even when controlling for many key wage factors (age, education, ethnicity, gender, industry, occupation), with Black workers in Connecticut earning on average between $0.78 and $0.92 per dollar since 2000. For a more detailed overview of 2023, **Figure 15** shows that the unadjusted racial wage gap is substantial across the bottom 90 percent of the wage distribution, with low-wage Black workers earning an average of $0.80 per dollar and middle-wage Black workers earning an average of $0.66 per dollar.[23]

The *ethnic wage gap* is measured here as the amount that Hispanic workers of any race earn for each dollar that white alone, non-Hispanic workers earn. **Figure 16** shows that the unadjusted ethnic wage gap remains substantial, with Hispanic workers in Connecticut earning on average between $0.61 and $0.75 per dollar from 2000 to 2023.[24] The ethnic wage gap also remains substantial in most years even when controlling for many key wage factors (age, education, gender, industry, occupation, race), with Hispanic workers in Connecticut earning on average between $0.85 and $0.98 per dollar since 2000. For a more detailed overview of 2023, **Figure 17** shows that the unadjusted ethnic wage gap is substantial across the wage distribution, with low-wage Hispanic workers earning an average of $0.79 per dollar and middle-wage Hispanic workers earning an average of $0.66 per dollar.[25]

Figure 12. Unadjusted and Adjusted Average Gender Wage Gap, 2000–2023

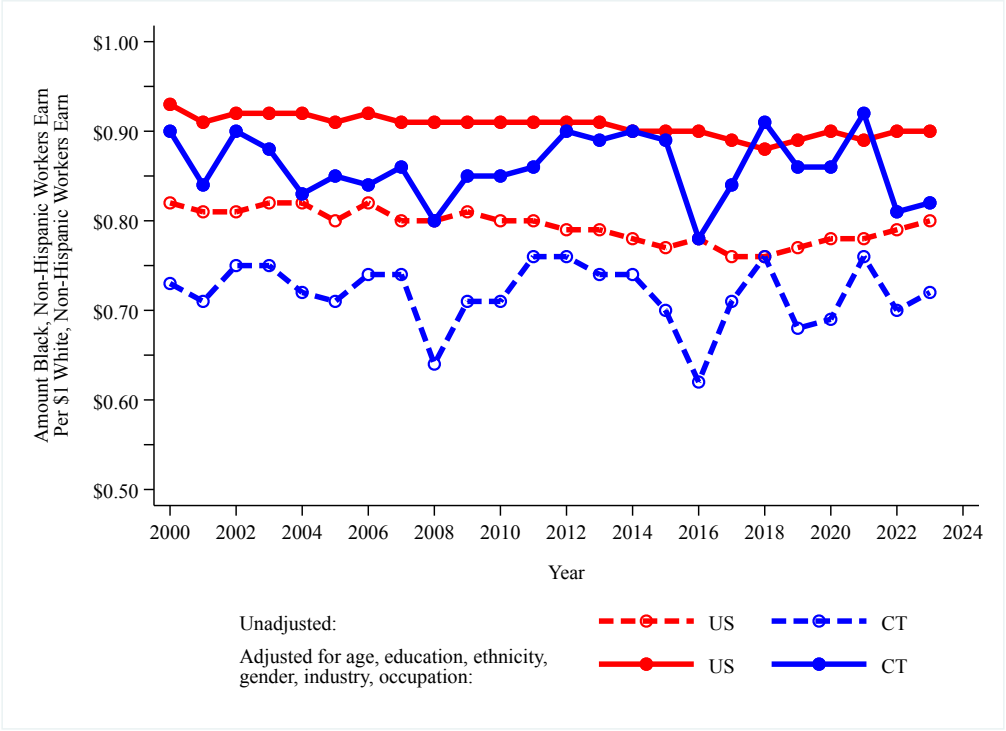


Source: EPI's extracts of the Current Population Survey and author's calculations.

Figure 13. Unadjusted Gender Wage Gap by Percentile, 2023

Source: EPI's extracts of the Current Population Survey and author's calculations.

Figure 14. Unadjusted and Adjusted Average Racial Wage Gap, 2000–2023

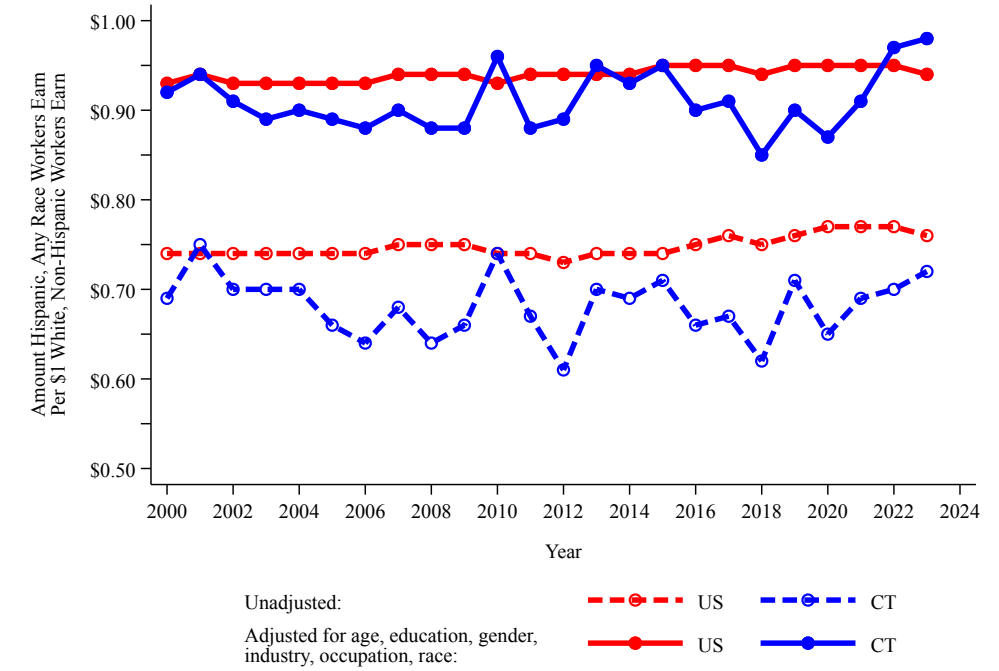


Source: EPI's extracts of the Current Population Survey and author's calculations.

Figure 15. Unadjusted Racial Wage Gap by Percentile, 2023

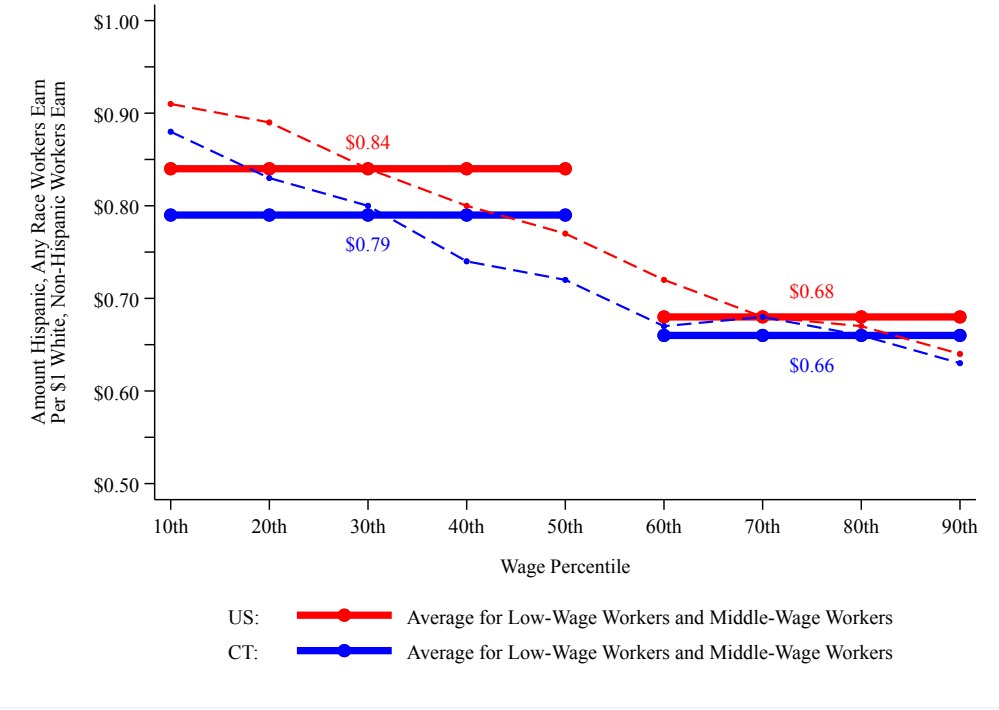
Source: EPI's extracts of the Current Population Survey and author's calculations.

Figure 16. Unadjusted and Adjusted Average Ethnic Wage Gap, 2000–2023



Source: EPI's extracts of the Current Population Survey and author's calculations.

Figure 17. Unadjusted Ethnic Wage Gap by Percentile, 2023



Source: EPI's extracts of the Current Population Survey and author's calculations.

Policy Options

This section provides policy options to support Connecticut's economy and workers, and the policy options are grouped into two broad categories: labor market policy options and tax policy options.

Labor Market Policy Options

Addressing major problems in the labor market will increase the state's labor force and job growth, leading to increased personal income growth and gross domestic product (GDP) growth, which in turn will increase the state's spending cap capacity and tax revenue. It will also help to increase wage growth, reduce wage inequality, and reduce wage gaps. Several labor market policy options are highlighted here:

- Eliminate the subminimum wage. While the state's minimum wage has steadily increased over the past several years—initially in one-dollar increments from $11 an hour in 2019 to $15 in 2023, and then to $15.69 in 2024 based on the Employment Cost Index (ECI)—a subminimum wage remains in place.[26] Specifically, the subminimum wage is set at $6.38 per hour for workers in the hotel and restaurant industry (excluding bartenders) and $8.23 per hour for bartenders.[27] The rationale behind the subminimum wage is that employees make up the difference through tips. However, as the minimum wage continues to increase annually with adjustments based on the ECI, the gap between the minimum and subminimum wages will grow, leading to greater reliance on tips by workers. Moreover, although employers are legally required to pay a tip credit if tips and wages do not meet the minimum wage, some workers struggle to receive the pay they are owed, as demonstrated by the significant backlog of wage theft complaints at the Connecticut Department of Labor (CT DOL).[28] In addition to increasing the staff at the CT DOL, which is recommended below, policymakers could address this problem by raising the hourly wages of workers in the hotel and restaurant industry to the full minimum wage—a proposal that the Labor and Public Employees Committee supported during the 2024 legislative session, but which ultimately did not pass into law.[29]

- Establish predictable scheduling. Predictable scheduling ensures that workers know their work schedules in advance, typically at least two weeks ahead, whereas unpredictable scheduling—more common in low-wage jobs—leaves workers without adequate notice and has significant negative effects on their health, well-being, and economic security. Specifically, unpredictable schedules prevent workers from knowing how much money they will earn each week, making it difficult to ensure their income is sufficient to make ends meet, and it also hinders their ability to take on a second job, pursue further education, arrange child care, and schedule essential activities like doctor's appointments for themselves or their children.[30] To address these problems, policymakers could require employers to provide predictable scheduling and compensation for violations. For example, a bill supported by the Labor and Public Employees Committee during the past legislative session proposed that

employers must pay employees an additional hour of pay at their regular rate for each instance where work hours are added, or the date, time, or location of a shift is changed with less than seven days' notice. Moreover, if a shift is canceled or reduced after the employee reports for work or with less than seven days' notice, the employer must compensate the employee at half their regular rate for the scheduled hours lost.[31]

- Limit the use of noncompete agreements. Noncompete agreements restrict workers from engaging in similar professions or businesses within a specific geographic area for a certain period after leaving a job. Although originally intended to protect trade secrets, noncompete agreements have become increasingly common for low- and middle-wage workers, and research finds that banning noncompete agreements could help increase wages for those workers and also significantly reduce gender and racial wage gaps.[32] In response to this problem, the Federal Trade Commission issued a ruling in early 2024 that, if had not been blocked by federal courts,[33] would have established a broad nationwide ban on noncompete agreements, with some exemptions, such as for senior executives earning over about $151,000 and in policymaking positions.[34] However, Connecticut policymakers could act at the state level to limit the use of noncompete agreements and also potentially include restrictions on jobs not even covered by the blocked FTC rule.

- Fill public sector jobs. Public sector jobs, which are more highly unionized, generally provide higher wages, better benefits, and stronger labor protections compared to private sector jobs. Filling these positions is crucial for reducing wage inequality, reducing wage gaps, and strengthening the state's economy. For example, as noted above, the Connecticut Department of Labor currently has a backlog of wage theft claims, disproportionately affecting low-wage workers. By increasing staffing to process these claims, more workers would receive their earned wages overall and in a timely manner, and the state would benefit from the addition of high quality public sector jobs. The Labor and Public Employees Committee unanimously supported increasing the number of wage and hour inspectors during the 2024 legislative session, and policymakers could continue to support this proposal and others, such as increasing the number of auditors at the Connecticut Department of Revenue Services.[35]

- Improve the early care and education (ECE) system by increasing the pay for ECE workers and making child care more affordable for families. Many adults, especially women, are unable to join the workforce due to the high cost of child care and/or the lack of high quality child care options where they live. Investing in affordable and accessible child care would therefore enable more parents to seek employment and simultaneously provide significant benefits to ECE workers. Specifically, such investments would help to reduce wage inequality by increasing the pay of low-wage ECE workers and would also help to reduce gender wage gaps by allowing more women to enter, remain, and succeed in the labor force. These changes in turn would help to grow Connecticut's economy. To realize these benefits, policymakers could provide more funding for the ECE system to increase the pay and benefits for ECE workers, and policymakers could make child care more affordable for families by raising the

income threshold for child care subsidies and capping out-of-pocket costs at 7 percent of their income.

For more details and policy options regarding the ECE system, see the report "State of Early Childhood: A Response to the Governor's Blue Ribbon Panel on Child Care and a Continuation of Spotlighting Disenfranchised Populations."[36]

Tax Policy Options

Making the tax system less regressive will increase the post-tax income of low- and middle-wage workers and their families. The resulting increase in consumer spending will boost job growth, personal income growth, and GDP growth, which in turn will help to increase the state's spending cap capacity and tax revenue. Making the tax system less regressive will also reduce post-tax income inequality and income gaps, offsetting in part the negative impact of wage inequality and wage gaps. Some tax policy options include:

- Reduce Connecticut's tax gap to generate additional revenue
- Eliminate and/or reduce high cost, high growth tax expenditures to generate additional revenue
- Reform Connecticut's fiscal controls to generate additional revenue
- Provide support to low- and middle-wage workers and their families by using the additional revenue to establish a fully refundable Connecticut Child Tax Credit
- Provide support to low- and middle-wage workers and their families by using the additional revenue to make the Connecticut Property Tax Credit fully refundable and available to renters
- Provide support to low- and middle-wage workers by using the additional revenue to increase the Connecticut Earned Income Tax Credit for childless workers

For more details and policy options, see the following reports: "The Case and Policy Options for Improving Connecticut's FY 2024 – FY 2025 Budget"[37] and "An Overview of the CT Child Tax Credit."[38]

Conclusion

This report highlights several significant problems affecting Connecticut's economy and workers, and then provides policy options to address those problems. The key economic problems highlighted include Connecticut's lagging job growth, personal income growth, and economic output growth compared to the U.S. as a whole. These trends have limited the state's ability to make critical public investments and to generate the necessary tax revenue, both for the critical public investments and for tax reforms that would support low- and middle-wage workers and their families. The focus then shifts to problems facing Connecticut's low- and middle-wage workers. For low-wage workers, real wage growth since 2019 has helped to increase their standard of living, but the historic surge in inflation since 2021 has significantly eroded the gains. For middle-wage workers, the decrease in real wages since 2019, compounded by the historic surge in inflation, has made it increasingly difficult to maintain, let alone improve, their standard of living. Additionally, substantial wage gaps for many low- and middle-wage working women and Black and Hispanic workers exacerbate these problems. To help Connecticut achieve its full economic potential while improving the standard of living for all its low- and middle-wage workers and their families, a range of policy options, from labor market reforms to tax reforms, are provided.

Acknowledgments

Connecticut Voices for Children (CT Voices) is a member of the Economic Analysis and Research Network (EARN), which is affiliated with the Economic Policy Institute (EPI), a nonpartisan public policy think tank that centers the needs of low- and middle-wage workers in economic policy discussions. As a member organization, CT Voices publishes a State of Working Connecticut report each year using data and research from EPI and EARN as well as other sources. We thank the staff of EPI and EARN and Carla Abdo-Katsipis for their support.

This report was funded by the Stoneman Family Foundation.

References and Notes

[1] U.S. Bureau of Labor Statistics, Total Nonfarm Employment in the U.S., Seasonally Adjusted, Series ID CES0000000001; Government Employment in the U.S., Seasonally Adjusted, Series ID CES9000000001; Total Nonfarm Employment in Connecticut, Seasonally Adjusted, Series ID SMS09000000000000001; Government Employment in Connecticut, Seasonally Adjusted, Series ID SMS09000009000000001.

[2] U.S. Bureau of Labor Statistics, Total Nonfarm Employment in the U.S., Seasonally Adjusted, Series ID CES0000000001; Government Employment in the U.S., Seasonally Adjusted, Series ID CES9000000001; Total Nonfarm Employment in Connecticut, Seasonally Adjusted, Series ID SMS09000000000000001; Government Employment in Connecticut, Seasonally Adjusted, Series ID SMS09000009000000001.

[3] Connecticut Office of Policy and Management, "FY 2024 – FY 2025 Biennium Governor's Budget: Program Addendum," page 33.

[4] Connecticut Finance, Revenue, and Bonding Committee, "Public Hearing, March 11, 2022," discussion starts at the 1-hour mark.

[5] Connecticut Office of Policy and Management, "FY 2010 – FY 2011 Governor's Biennial Budget: General Government," page 142; Connecticut Office of Policy and Management, "FY 2024 – FY 2025 Biennium Governor's Budget: Program Addendum," page 33.

[6] U.S. Bureau of Economic Analysis, State Quarterly Personal Income Summary (SQINC1), last updated June 28, 2024.

[7] For personal income growth as the operating constraint in fiscal years 2020, 2021, and 2022: Connecticut Office of Policy and Management, "Fiscal Accountability Report, Fiscal Years 2024 – 2028," page 25. For annual capped expenditures: Connecticut Office of Fiscal Analysis, "Connecticut State Budget, FY 20 and FY 21," page 340 (FY 20); "Connecticut State Budget, FY 22 and FY 23," page 363 (FY 21 revised, FY 22).

[8] U.S. Bureau of Economic Analysis, State Quarterly Personal Income Summary (SQINC1), last updated June 28, 2024.

[9] This is a simplified example that shows the possible extent of the impact of Connecticut's slower personal income growth compared to the U.S. Note that this example does not take into account the years when inflation is the operating constraint on budget appropriations, and it does not apply the actual compound growth rate in personal income for each budget and its capped expenditures. Therefore, the $5.3 billion budget gap example here is not intended as a precise estimate of the reduction in Connecticut's spending cap capacity. Rather, it is simply intended to show that Connecticut's slower personal income growth over a period of 16 years translates "to possibly billions of dollars in reduced allowable spending on critical public investments."

[10] U.S. Bureau of Economic Analysis, State Quarterly Gross Domestic Product Summary, SQGDP1, last updated June 28, 2024.

[11] Net General Fund tax revenue from Connecticut Office of the State Comptroller, "Budgetary/Statutory Basis (GAAP Based Budgeting) Annual Report: For Fiscal Year Ended June 30, 2023," page 27.

[12] U.S. Bureau of Economic Analysis, Archive of State Quarterly Gross Domestic Product Summary, SQGDP1, last updated June 30, 2023.

[13] Net General Fund tax revenue from Connecticut Office of the State Comptroller, "Budgetary/Statutory Basis (GAAP Based Budgeting) Annual Report: For Fiscal Year Ended June 30, 2023," page 27.

[14] Economic Policy Institute, Current Population Survey Basic Monthly Extracts, 2019–2023; U.S. Bureau of Labor Statistics, Updated R-CPI-U-RS, All items, 1977-2023; Ben Zipperer and Zane Mokhiber, Binipolate: A Stata Function to Bin Data and Linearly Interpolate Percentiles, 2020. Wage estimates are based on "wage" variable for respondents 16 years or older in the fourth or eighth month of the survey (outgoing rotation group), and inflation adjustment is calculated using the annual average from the R-CPI-U-RS data set. Average growth for low-wage workers is calculated as the average of the growth rates at the 10th, 20th, 30th, 40th, and 50th percentiles. Average growth for middle-wage workers is calculated as the average of the growth rates at the 60th, 70th, 80th, and 90th percentiles.

[15] Connecticut General Statutes. Chapter 558, Section 31-58.

[16] U.S. Bureau of Labor Statistics, All Items in U.S. City Average, All Urban Consumers, Not Seasonally Adjusted, Series ID CUUR0000SA0.

[17] Economic Policy Institute, Current Population Survey Basic Monthly Extracts, 2019–2023; U.S. Bureau of Labor Statistics, Updated R-CPI-U-RS, All items, 1977-2023; Ben Zipperer and Zane Mokhiber, Binipolate: A Stata Function to Bin Data and Linearly Interpolate Percentiles, 2020. Average growth for low-wage workers is calculated as the average of the growth rates at the 10th, 20th, 30th, 40th, and 50th percentiles. Average growth for middle-wage workers is calculated as the average of the growth rates at the 60th, 70th, 80th, and 90th percentiles.

[18] Economic Policy Institute, Current Population Survey Basic Monthly Extracts, 2019 and 2023; Ben Zipperer and Zane Mokhiber, Binipolate: A Stata Function to Bin Data and Linearly Interpolate Percentiles, 2020.

[19] Economic Policy Institute, Current Population Survey Basic Monthly Extracts, 2019 and 2023; Ben Zipperer and Zane Mokhiber, Binipolate: A Stata Function to Bin Data and Linearly Interpolate Percentiles, 2020.

[20] Economic Policy Institute, Current Population Survey ORG Extracts, 2000–2023.

[21] Economic Policy Institute, Current Population Survey Basic Monthly Extracts, 2019–2023; Ben Zipperer and Zane Mokhiber, Binipolate: A Stata Function to Bin Data and Linearly Interpolate Percentiles, 2020.

[22] Economic Policy Institute, Current Population Survey ORG Extracts, 2000–2023.

[23] Economic Policy Institute, Current Population Survey Basic Monthly Extracts, 2019–2023; Ben Zipperer and Zane Mokhiber, Binipolate: A Stata Function to Bin Data and Linearly Interpolate Percentiles, 2020.

[24] Economic Policy Institute, Current Population Survey ORG Extracts, 2000–2023.

[25] Economic Policy Institute, Current Population Survey Basic Monthly Extracts, 2019–2023; Ben Zipperer and Zane Mokhiber, Binipolate: A Stata Function to Bin Data and Linearly Interpolate Percentiles, 2020.

[26] Connecticut General Statutes, Chapter 558, Section 31-58.

[27] Connecticut General Statutes, Chapter 558, Section 31-60.

[28] José Luis Martínez, "Wage Theft Complaint Backlog Grows, But Dept. of Labor Lacks Staff," CT Mirror, August 4, 2024.

[29] Connecticut General Assembly, S.B. 221, "An Act Concerning the Minimum Fair Wage and Service Charges," 2024.

[30] Connecticut General Assembly, "Joint Favorable Report for S.B. 413," 2024.

[31] Connecticut General Assembly, S.B. 413, "An Act Concerning Predictable Scheduling," 2024.

[32] Federal Trade Commission, Non-Compete Clause Final Rule, 16 CFR Parts 910 and 912, RIN 3084-AB74, May 2024; U.S. Department of the Treasury, "The State of Labor Market Competition," March 2022.

[33] Danielle Kaye, "Judge Blocks F.T.C.'s Noncompete Rule," New York Times, August 20, 2024.

[34] Federal Trade Commission, Non-Compete Clause Final Rule, 16 CFR Parts 910 and 912, RIN 3084-AB74, May 2024; Danielle Kaye, "Judge Blocks F.T.C.'s Noncompete Rule," New York Times, August 20, 2024.

[35] Connecticut General Assembly, H.B. 5384, "An Act Concerning the Number of Wage and Hour Inspectors at the Labor Department," 2024.

[36] Carla B. Abdo-Katsipis and Lauren K. Ruth, "The 2023 State of Early Childhood: A Response to the Governor's Blue Ribbon Panel and a Continuation of Spotlighting Disenfranchised Populations," Connecticut Voices for Children, January 2024.

[37] Patrick R. O'Brien, "The Case and Policy Options for Improving Connecticut's FY 2024 – FY 2025 Budget," Connecticut Voices for Children, December 2022.

[38] Patrick R. O'Brien, "Supporting the Economic Well-Being of Connecticut's Families and Children: An Overview of the CT Child Tax Credit," January 2024.